

Unicorn Asset Management

Q1 Fund Commentary

UK Income Fund

Market Review

Following a strong end to 2023, global equity markets were relatively subdued during the first three months of 2024. The main factors that are fuelling investor concerns are inflation and an increasing threat of further regional conflict. Mixed inflation data has forced investors to reassess the speed and extent of interest rate cuts, while geopolitical risk remains extremely high.

In the UK, GDP data confirmed that the UK experienced a technical recession in the fourth quarter of 2023, but economic growth forecasts for 2024 and 2025 have recently been revised upwards, to +0.5% and +0.7% respectively.

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Despite muted returns from equity markets in general, the UK's largest quoted companies continued to outperform their small-cap peers during the quarter under review.

Performance, Activity & Fund Commentary

The Unicorn UK Income Fund returned +1.8% in the quarter under review, modestly underperforming the UK Equity Income sector return of +2.5%. The Deutsche Numis Smaller Companies (plus AIM) Index (DNSCI) declined in value by 0.8% over the same period.

The Fund's relative outperformance when compared to the DNSCI was mainly a result of strong operational and financial performance delivered by the portfolio of investee companies during a key reporting period for the UK equity market.

During the quarter, the Fund exited one holding (Spectris) and added another, Avon Protection. Avon Protection is a company that specialises in the manufacture of respiratory protection equipment for military, law enforcement, and firefighting personnel. Its products, which include gas masks and respirators, are known for their high quality and reliability, which are crucial in life-threatening situations. Avon Protection enjoys a strong market position in the defence and public safety markets, which are areas offering stable growth and recurring demand. The holding was added to the portfolio following a period of share price weakness. Pleasingly, Avon Protection has made a positive contribution to overall Fund performance, with its share price increasing by 9% since initial introduction.

LondonMetric and Telecom Plus were the two holdings that contributed most to performance during the period under review (136bps combined).

LondonMetric completed its merger with LXI REIT in March, which is now expected to provide the enlarged business with economies of scale and an enlarged combination of highly attractive commercial real estate assets.

Telecom Plus is the UK's only multi-service provider of energy, broadband, and insurance, offering customers a 'one-stop shop' for essential services. Telecom Plus continues to deliver growth by offering its customers the convenience of a single monthly bill, alongside consistently competitive pricing, and exceptional service standards.



Outlook & Positioning

Equity market conditions appear to be turning more favourable, with the rate of inflation seemingly in steady decline and interest rates therefore predicted to commence a downward trend before the end of 2024. The re-emergence of inflation in 2021 created an exceedingly difficult environment for smaller quoted companies. A reversal in direction for interest rates should provide a much more supportive backdrop for income investors, despite the bleak geo-political backdrop. The outlook for the Fund during the remainder of 2024 and beyond is favourable, especially if the growth in earnings of the investee companies is maintained. Should this earnings growth coincide with a prolonged period during which interest rates decline steadily, then the Fund is particularly well-placed to perform strongly.

The UK equity market currently appears directionless, as investors await more concrete evidence that inflation is firmly under control and that the Bank of England's policy of fiscal tightening has not been too aggressive. We expect the macro-economic picture to become clearer as the calendar year progresses. Meanwhile, we remain confident in a positive outcome for the Fund during the second half of its financial year.

